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FINANCIAL SITUATION OF UNIDO

Report by the Director-General

Summary

Provides information on the status of the regular budget, separation indemnity reserve and operational budget.

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Introduction

1. The financial situation of the Organization continues to give cause for concern, as projected year-end cash balances are expected to be insufficient to cover all obligations. The pattern of payment of assessed contributions by Member States in 1997 continues to be irregular, thereby contributing to a delay in the financial implementation of the regular budget. The financial situation in the operational budget continues to improve through increasing technical cooperation delivery and support cost income and a constant level of expenditures.

I. CURRENT SITUATION

A. Regular budget

2. For the seven months ended 31 July 1997, assessed contribution income remained at levels comparable with the same period in 1996. The possibility of achieving an annual collection rate for 1997 comparable to that of 1996 (96.5 per cent) will depend on the payment patterns of some Member States. In the absence of confirmed information from Member States on the timing of payments, projected levels of cash inflows remain uncertain.

3. Notwithstanding the satisfactory collection rates anticipated for 1997, year-end cash balances will be at inadequate levels and are not expected to cover outstanding obligations or permit any replenishment of the Working Capital Fund.

4. The status of assessed contributions to the regular budget as of 31 July 1997 is shown in conference room paper PBC.13/CRP.2, annex I. As of that date, unpaid contributions for the period 1986 to 1996 amounted to $60,346,472 and AS 419,366,592 (equivalent to $34,658,411 at an exchange rate of US$ 1 = AS 12.10) for a total of $95,004,883. Unpaid contributions for the current year amounted to $3,751,615 and AS 354,905,015 (equivalent to $29,331,005) for a total equivalent of $33,082,620. Total outstanding contributions, therefore, amounted to $128,087,503.

5. As of 31 July 1997, the collection rate amounted to 72 per cent of the 1997 assessment, 60.2 per cent of which related to current year collections and 11.8 per cent to prior year collections. As of 31 July 1997, 44 Member States had made full payments of 1997 assessed contributions, as shown in table 1 below. In addition, 36 Member States had made payments of prior year assessments, which was comparable to that date in 1996.

Table 1

Payment of current year assessments
(As of 31 July 1997)

	1996	1997
Number of Member States	169	169
No payment	102	108
Partial payment	19	17
Full payment	48	44

6. The information contained in table 1 shows the reduction in the number of Member States making payments in 1997 compared to 1996. In this regard, 62 Member States currently have had their voting rights suspended since contributions due from these Members are in excess of the amounts prescribed in Article 5.2 of the Constitution. At the same time last year, 57 Member States had lost their right to vote.

7. The status of advances to the Working Capital Fund is shown in document PBC.13/CRP.2, annex II. Unpaid advances as of 31 July 1997 amounted to $51,281. The Fund presently has no cash balance and it is not expected to be replenished to its authorized level of $6,750,000 during 1997.

8. Annex III to document PBC.13/CRP.2 shows the general fund cash flow analysis for 1997 as of 31 July 1997. The cash flow analysis indicates a projected cash balance of $5.1 million by year end. This assumes relatively similar income patterns compared to 1996 and expenditures at lower-than-budgeted levels. Cash availability continues to be a crucial issue, having regard to continued uncertainties with respect to income and anticipated budgetary reductions for the 1998-1999 biennium.

B. Regular budget performance report — measures taken

9. Financial implementation of the regular budget for the period January 1996 to July 1997 was strongly influenced by the need to ensure that expenditures were kept within available cash resources.

10. The financial indicators for the regular budget and contingency plans are presented in figure 1 and table 2 below. A more detailed presentation of the financial implementation by major programme and major object of

expenditure is shown in annex IV to document PBC.13/CRP.2.

11. The full implementation by the Secretariat of the programme and budgets is dependent on the availability of cash resources throughout the biennium. In view of the uncertain financial situation, expenditure cutbacks, particularly in administrative costs, have been achieved to reduce cash outflows. However, in view of the programmatic importance of activities under the Regular Programme of Technical Cooperatioan (RPTC) and the Industrial Development Decade for Africa (IDDA), resource allocations in these two programmes have been maintained at the budgeted levels approved by Member States and full implementation is anticipated by year end.

12. The rate of monthly expenditure is expected to increase during the last quarter of the biennium, particularly in respect of RPTC and IDDA activities and for conference servicing costs related to policy-making organs sessions to be held during the remainder of the biennium.

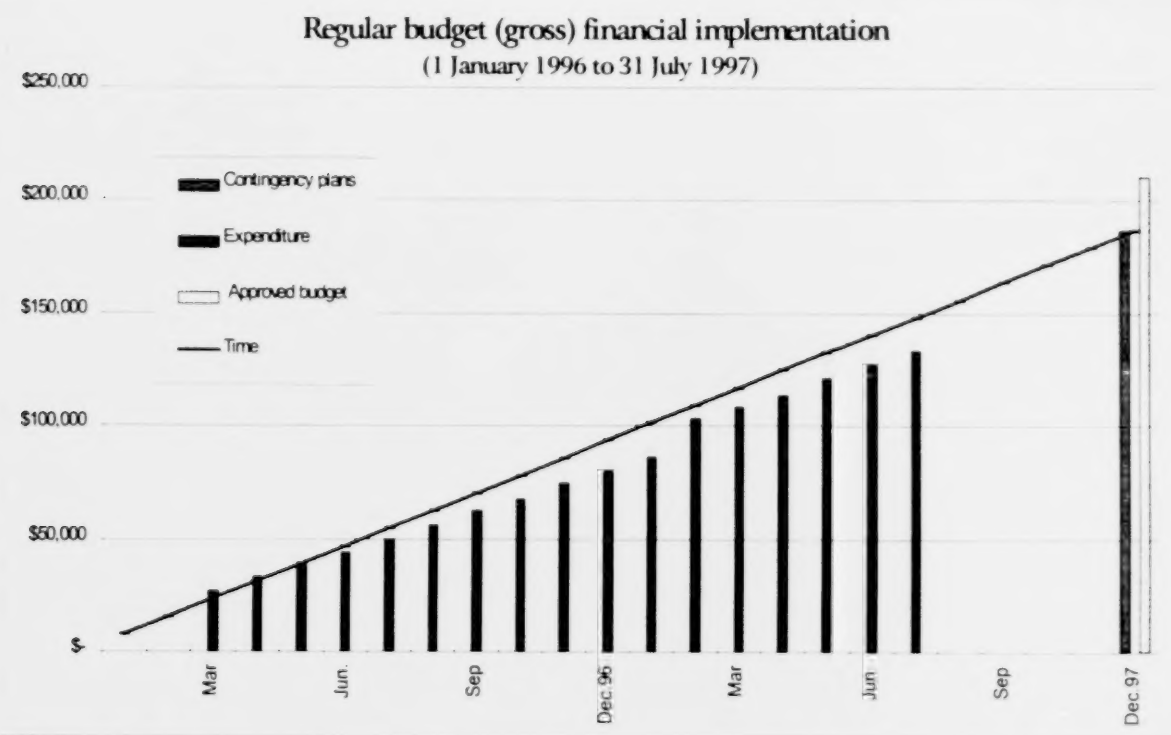
13. In addition to the savings through an increasing vacancy factor for Professional-level posts (11.9 per cent as of 31 July 1997), expenditure reductions achieved during the biennium are as detailed in paragraph 15 of document IDB.17/24.

Table 2

Regular budget financial implementation
1 January to 31 July 1997
(In thousands of US$ at US$ 1 = AS 12.90)

	Approved budget	Contingency plans
Gross		
1996-1997	210,246.6	187,103.2
Expenditure to date	133,417.8	133,417.8
Unspent budget	76,828.8	53,685.4

Figure 1



C. Operational budget

14. The improvements to the financial situation of the operational budget experienced in the first half of 1997 and reported in document IDB.17/24 have continued.

15. As a result of improving technical cooperation delivery levels and a constant monthly outflow of expenditures, the operational budget is expected to achieve a surplus of approximately $160,000 for the year. This surplus will be used to strengthen the operating reserve, which had a balance of $3,374,900, at 31 December 1996.

16. The operational budget status report showing actual and projected income and expenditures for 1997, together with the estimated reserve balance at year-end, is summarized in table 3 below.

D. Separation indemnity reserve

17. The separation indemnity reserve was established in December 1995 at a level of $17 million for the purpose of funding and accounting for the costs of the staff reduction exercise. The utilization of the reserve and the unspent balances as at 31 July 1997 are shown in table 4.

Table 3

Operational budget status report, 1997
(In thousands of US dollars)

Opening balance of reserve – 1 January 1997			3,374.9
Income			
Actual – January to July 1997	7,751.7		
Projected – August to December 1997	4,384.0		
		12,135.7	
Expenditure			
Actual – January to July 1997	7,541.9		
Projected – August to December 1997	4,433.9		
		11,975.8	
Estimated surplus/(deficit)			159.9
Estimated closing balance of reserve – 31 December 1997			3,534.8

Table 4

Separation indemnity reserve
(In thousands of US dollars)

Approved level			
(a)	Obligation against 1994-1995 budget appropriation		7,453.3
(b)	Unutilized balances of appropriation for 1992-1993		9,546.7
			17,000.0
Utilization (at 31 July 1997)			
(a)	Termination costs:		
	Disbursements	(13,898.2)	
	Obligations	(540.5)	
			(14,438.7)
(b)	1994-1995 obligations not utilized a/		(567.7)
Balance of the reserve at 31 July 1997			1,993.6

a/ Included in the budgetary surplus for 1994-1995.

18. The balance of the reserve at 31 July 1997 is approximately $2 million. In view of the anticipated budgetary reductions for the 1998-1999 biennium, the balance of the reserve should be utilized to fund a limited number of the staff separations necessary to reduce the current staffing establishment to anticipated 1998-1999 budgetary levels. As described in document PBC.13/14/5, the actual amount required to fund the separation indemnity reserve is dependent on the level of budget reductions agreed by Member States. Document PBC.13/14/5 also describes the modalities for funding (budgetary) and financing (cash) the separation indemnity reserve.

II. ACTION REQUIRED OF THE COMMITTEE

19. The Committee may wish to recommend to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the financial situation of UNIDO (PBC.13/13 and PBC.13/CRP.2) containing information concerning the status of assessed contributions, advances to the Working Capital Fund, cash flow estimates, regular budget performance, operational budget status and the separation indemnity reserve;

"(b) Urges those Member States that have not yet paid their assessed regular budget contributions, including advances to the Working Capital Fund, for the bienniums 1986-1987 to 1996-1997 to do so without delay;

"(c) Appeals to the Government of the United States of America to pay immediately its international financial obligations to the Organization of $61.3 million (comprising $38.3 million and AS 278.6 million)."